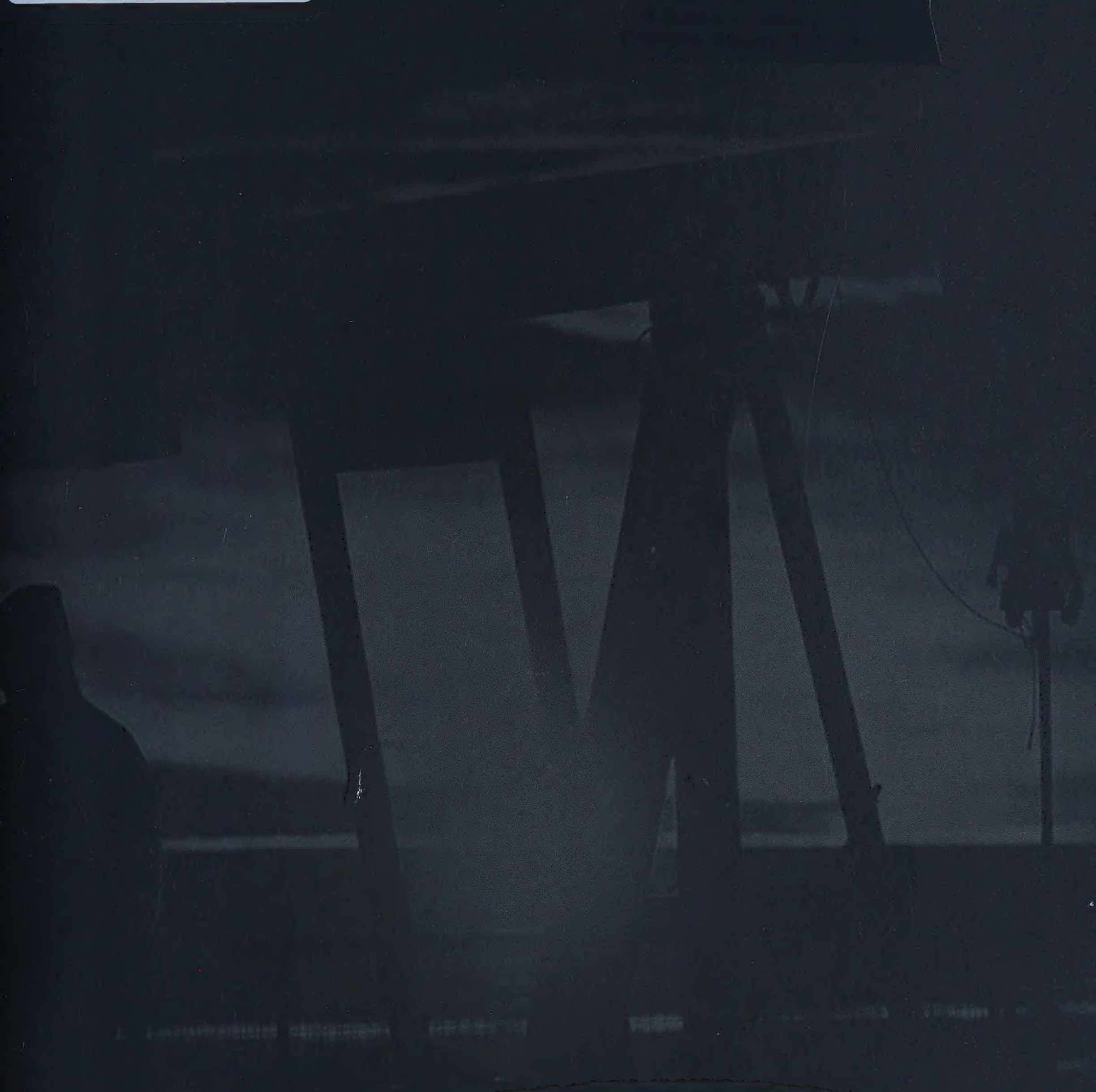

FLOWING ENERGY CORPORATION

2000 ANNUAL REPORT

CORPORATE PROFILE

Flowing Energy Corporation is a junior resource company driven by delivering value to its shareholders. Its principal business is the exploration, development, and production of natural gas and oil in Alberta. Flowing targets low risk opportunities offering significant upside potential. Flowing Energy's shares trade on the Canadian Venture Exchange under the symbol FLO.

Flowing ENERGY

PRESIDENT'S MESSAGE

On the whole 2000 was a successful year for Flowing in spite of some setbacks.

Flowing acquired approximately 17 net sections during the year, a substantial land position for a company Flowing's size. After year 2000 drilling, Flowing has undeveloped land at year-end of almost 13 net sections. Flowing operated most of this land position. This land was generally acquired near the beginning of the year before gas and land prices increased. Based on recent land sales in the area, Flowing could have undeveloped land worth about $1.4 million, representing a significant premium to the Company's cost.

Flowing participated in the drilling of 5 wells, or a net 3.75 wells after payout. Of the three operated wells, one was completed as a gas producer, one was uneconomic and the third is suspended until tie-in costs can be shared. For the well completed as a gas producer, proven producing reserve additions for this well created value almost equal to the amount spent. The uneconomic well also ran over budget, compounding the adverse financial impact. Both of Flowing's farm-out wells were completed as gas producers. Once is currently on-stream and the other is suspended until tie-in costs can be shared.

Also during the year, Flowing resolved its dispute with parties associated with the Company's Major Transaction. This settlement closed in 2001 and the precise terms are confidential. However, one of the impacts is that the Company will reduce its outstanding shares by 877,700, or approximately 10%.

Our Executive Vice President, Tony Pantalone, left Flowing in early 2001 to pursue a consulting career. We wish Tony success in his new ventures and thank him for the work he did to put together an attractive land portfolio.

We continue to have success farming out our land. Our current plan is to evaluate various options to maximize shareholder value. One option is to seek new management through an acquisition or a merger. In the meantime we are looking forward to drilling results on our existing farm-outs. Any of these projects can have material positive impacts on the Company's proven producing reserves.

Michael R. Binnion
President

EXPLORATION PROSPECTS

Gilby

An intermediate production company is currently drilling a 2800-metre horizontal farm-in test well in the Mississippian Pekisko formation. Flowing will obtain a 15% gross overriding royalty before payout converting to a 25% working interest upon payout. Any success, whether gas or oil, will be tied-in quickly due to the abundance of nearby production facilities.

Ponoka

Flowing's 100% producing gas well at Ponoka encountered 3 metres of gas pay in the Edmonton sands and 4 metres of Belly River gas pay uphole of the currently producing horizon. A new well will be required to access these reserves due to low formation pressure. Compression needed to bring this gas on-stream will benefit both the new well and the existing producing well. Production from this shallow gas could be between 250 - 500 mcf per day net to Flowing.

Early in 2001, Flowing signed a seismic option agreement with Velvet Exploration Ltd. for its 5 1/4 section exploration block in the Ponoka area of Alberta. This acreage encompasses 11 gas spacing units with eight prospective zones. Potential reserves per zone range between 0.75 and 4 BCF, with expected rates of delivery of 500 mcf per day to 3 mmcf per day. Subsequent to the acquisition of a minimum of 20 km of seismic by June 1, 2001, Velvet will have the option to drill a Paleozoic test well to earn a 100% interest in the acreage subject to a 15% non-convertible overriding royalty. After March 1, 2003, any farm-out land on undrilled gas spacing units will revert to Flowing.

Ferrybank

An active industry operator in the area has agreed to farm-in on a 750-metre deep Belly River light oil play. The play is based on interpreted bypassed pay in two wells that are one mile apart. The wells are also at the apex of a structural high. If successful, the projected pool may have up to 500,000 barrels of reserves based on a 10% primary recovery factor and eight wells on 40-acre spacing. Flowing controls all the prospective land.

The farm-in well is to be spud by August 1, 2001. Flowing will obtain a 12.5 % gross overriding royalty before payout, converting to a 50% working interest after payout in the earning well. Flowing will retain a 50% working interest in the balance of the land.

Nelson

Late in 2000, Flowing drilled a short (100 metres) horizontal well for 7 metres of Glauconitic channel gas pay over water. The well unfortunately encountered low quality reservoir that was unable to sustain commercial rates. A second horizontal leg could be drilled from this suspended well targeting the zone more accurately by aiming directly for the original discovery well which had an absolute open flow of 12 mmcf per day. Tie-in is only 75 metres away. A second location also exists on the section at 15-36 for Colony gas.

Lacombe

Flowing drilled a 100% working interest Ellerslie and Basal Quartz gas test that proved to have uneconomic reserves. Uphole potential exists on this well for Viking gas. Another location is present on the section for 13 metres of bypassed Colony gas pay by twinning the 100/6-30-41-25W4M abandoned well. In addition, another location is possible on section 30 for Belly River gas as an extension to the offsetting producer.

Pouce Coupe

Based on a deep, large (4,200 acres) undrilled geologically mapped four-way structural closure in the Peace River Arch geological province, Flowing acquired a 100% interest in a 320-acre block. Target formations include the Mississippian Taylor Flat, Kiskatinaw, and Elkton formations above the depth of 2500 meters and the Devonian Wabamun formation at a depth of approximately 3300 meters. Potential field size on the entire 4,200 acres for this exploration play is in the order of 400 BCF. The land is accessible year-round and lies on a pipeline going to a highly underutilized gas plant. Flowing is holding this land in the hopes that a larger company will test this play.

Bigoray

In the Bigoray area of west central Alberta, Flowing purchased a 100% interest in a 160-acre land parcel for a Jurassic and Mississippian test. The land is also prospective for various Mannville gas sands and Devonian Nisku pinnacle reefs. Industry activity in the area has been brisk recently, including offset drilling and land postings.

Penhold

Flowing acquired a 100% interest in a 320-acre lease based on a Devonian prospect lead.

PRODUCING PROPERTIES

Ponoka 6-36-42-26 W4M

This 100% Flowing well is producing 40 boepd at year-end based on conversion of 6 mcf to 1 barrel. It is anticipated that production will improve once compression is installed.

Chigwell 16-21-43-26W4M

Flowing obtains a 12.5% gross overriding royalty before payout converting to a 35% interest after payout. Current production is approximately 370 mcf per day. A second similar bypassed pay zone is present on the section at 7-21-43-26W4M, but will require a new well to be drilled to access it.

Shekilie 2-11-118- 8W6M

Flowing has a 9.9% before payout interest in this well reverting to a 6% working interest after payout. Initial production was 2 mmcf per day but has dropped off. Current production is approximately 1.5 mmcf per day.

Chigwell 8-15-42- 26W4M

Search recently licensed a well on the offsetting section 14 targeting Mannville gas pay. If this well is successful, the 8-15-42-25W4M should be tied in simultaneously. Gross potential production from the 8-15 Basal Quartz is 400 mcf per day. Flowing will obtain a gross overriding royalty of 15% before payout converting to a 40 % working interest at payout. The Ellerslie gas pay, consisting of 5 metres of gas over 8 metres of water, could be put on stream once the Basal Quartz is depleted. Lower productivity Viking gas potential would be exploited last.

Snowfall 12-12-99-8W6M

Flowing has a 90% working interest in a tied-in Debolt gas well. At this time the well is unable to produce against line pressure without compression. Planning is underway to install the necessary compression before December 31, 2001 as soon as freeze up occurs in this winter only access area. Once compression is in place, it is anticipated that the well will be capable of a gross 650 mcf per day. If not tied in by December 31, 2001, the end of the extended lease term, Flowing will surrender this lease.

Wildmere 12-30-48-4W4M

Flowing has a 12.5% before payout interest and 6.25% after payout interest in this multizone Mannville gas well. Production is currently about 350 mcf per day from commingled Sparky, Rex and GP sands. The Colony, which tested 2.2 mmcf per day on DST, has not been completed yet.

FLOWING ENERGY AREAS OF INTEREST IN ALBERTA

Results of Operations for the Year Ended December 31, 2000, compared to the Year Ended December 31, 1999.

Revenues

Petroleum and natural gas revenues, net of royalties for the year ended December 31, 2000 were $634,281, an increase of $509,414 or 408% from $124,867 in the prior year. The increase was attributable primarily to sharply higher oil and natural gas prices and production volume gains from the 100%-owned Ponoka 6-36-42-26 W4M well that was drilled in early 2000 and went on production in August.

Expenses

General and administration expenses were $265,332 for the year ended December 31, 2000 compared to $40,922 for the year ended December 31, 1999. The increase of $224,410 was due to significantly higher operating activity in 2000 compared to the prior year. The Company drilled three sole risk wells during the year and purchased 4,338 hectares of land which required the hiring of a full time geologist and utilizing consultants to provide administrative support for the increased activity. In addition, costs of the statement of claim filed by the Company in 2000 (as described in note 15 to the audited financial statements of the Company as at and for the year ended December 31, 2000) were charged to General and Administrative expenses in 2000. Depletion increased to $190,066 for the year ended December 31, 2000 compared to $87,626 in the prior year due to an increased asset base from drilling activity in 2000 and increased production during the year. Operating expenses increased from $72,107 for the year ended December 31, 1999 to $180,831 for the year ended December 31, 2000 primarily due to operations of the Ponoka 6-36-42-26 W4M well which was not on production in the prior year. The Company experienced a ceiling test write down of $102,000 during the year. Interest on debentures and promissory notes was $24,276 for the year ended December 31, 2000 with no corresponding charge in the prior year due to the issue of the debentures and promissory notes in early and mid-2000, respectively. The investment in Sarnia Minerals Limited did not experience a decline in value and accordingly continues to be carried at cost less the amount written down in the prior year ($222,978).

The Company had sufficient tax loss carryforwards to reduce income taxes that would otherwise have been payable. The net loss for the year ended December 31, 2000 was $128,224 ($0.018) compared to $298,766 ($0.052) for the year ended December 31, 1999.

Liquidity and Capital Resources

In late 1999 the Company began actively pursuing oil and gas opportunities in Western Canada and the plan was fully implemented in 2000 requiring additional financing. During 2000 the Company secured debt financing of $1,300,000 comprised of $300,000, 5% convertible debentures, a $500,000 demand promissory note to a shareholder and a $500,000, 8% Subordinated Convertible Promissory Note. The $500,000 demand promissory note is held by a shareholder and on demand will most likely be repaid through the transfer of $500,000 of the Company's producing properties.

In addition, 2,557,386 common shares were issued during the year for net proceeds (after deducting share issue costs) of $536,482. This included the issuance of 1,600,000 flow through common shares in August and September 2000 at $0.50 per share.

As at December 31, 2000 the Company had a working capital deficiency of $545,979 compared to a working capital deficiency of $12,723 as at December 31, 1999. All sales receivables and trade payables are settled on a monthly basis. The Company has sufficient capital resources and liquidity to meet its obligations as they come due.

Business Risks

Flowing faces a number of business risks with respect to its oil and gas exploration and operations activities in Alberta. These risks are not always within the Company's control and can be categorized as either operational, financial or regulatory.

The operational risks include finding oil and natural gas reserves on an economic basis, production risk once reserves are discovered and put on production, commodity marketing risk and the risk that sufficient human resources and contract services can be hired and retained in a cost-effective manner. We address these risks by working to ensure that the human resources that we procure are highly qualified and motivated and fairly compensated. Flowing supports long-term relationships with its suppliers to ensure that its operations are provided the highest possible quality service consistently. Insurance is in place to protect against pollution, well blowouts and other forms of asset destruction.

Financial risks to Flowing include commodity prices and access to debt and equity markets

Regulatory risks include environmental concerns such as pollution of air, land and water, which if ignored, can adversely affect Flowing's operations and the environment where our operations are sited. Flowing's policy is to protect and maintain the environment in regards to its operations and to ensure compliance with government regulations regarding the protection of the environment and the safety of the workplace for our contract service providers.

Business Prospects

The energy industry is enjoying record high cash flows and earnings. Flowing is well positioned to take advantage of the future with its 3,302 hectares of undeveloped land and its producing asset base that will be of interest to other industry players.

Flowing continues to be successful in farming out its land. The Company's current plans are to seek new management through acquisition or merger with another company and currently we look forward to drilling results on the Company's existing farm-outs.

To the Shareholders of Flowing Energy Corporation:

We have audited the consolidated balance sheets of Flowing Energy Corporation as at December 31, 2000 and 1999 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and 1999 and the results of its operations and the cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Kenway Mack Slusarchuk Stewart LLP

Calgary, Alberta
March 28, 2001

CONSOLIDATED BALANCE SHEETS

December 31	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 141,288	$ 97,647
Accounts receivable	484,893	63,701
Promissory notes receivable, current portion (Note 3)	92,500	–
	718,681	161,348
Promissory notes receivable, net of current portion	–	87,500
Investment in Sarnia Minerals Limited (Note 4)	10,000	10,000
Petroleum and natural gas properties (Note 5):		
Cost	2,351,051	331,971
Less Accumulated depletion	319,984	130,318
	2,031,067	201,653
	$ 2,759,748	$ 460,501
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 764,660	$ 49,071
Demand promissory note due to shareholder (Note 6)	500,000	–
Deposits received on convertible debentures	–	125,000
	1,264,660	174,071
Convertible promissory note due to shareholder (Note 7)	500,000	-
Convertible debentures (Note 8)	300,000	-
Provision for future site restoration	3,400	3,000
	2,068,060	177,071
Commitment (Note 9)		
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	1,216,482	680,000
Deficit	(524,794)	(396,570)
	691,688	283,430
	$ 2,759,748	$ 460,501

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

For the Years Ended December 31	2000	1999
Revenue:		
Petroleum and natural gas revenue, net of royalties	$ 634,281	$ 124,867
Expenses:		
General and administrative	265,332	40,922
Depletion	190,066	87,626
Operating	180,831	72,107
Write-down of petroleum and natural gas properties	102,000	–
Interest on debentures and promissory notes	24,276	–
	762,505	200,655
Loss from operations	(128,224)	(75,788)
Write-down of investment in Sarnia Minerals Limited	–	(222,978)
Loss before income taxes	(128,224)	(298,766)
Income taxes		
Current	42,000	–
Utilization of losses not previously recognized	(42,000)	–
	–	–
Net loss	(128,224)	(298,766)
Deficit, beginning of year	(396,570)	(97,804)
Deficit, end of year	$ (524,794)	$ (396,570)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31	2000	1999
Operating activities:		
Net loss	$ (128,224)	$ (298,766)
Items not involving cash		
Depletion	190,066	87,626
Write down of petroleum and natural gas properties	102,000	–
Write down of investment in Sarnia Minerals Limited	–	222,978
	163,842	11,838
Changes in non cash working capital balances		
Accounts receivable	(421,192)	(46,297)
Accounts payable and accrued liabilities	715,589	(12,351)
Deposits received on convertible debentures	(125,000)	125,000
	169,397	66,352
	333,239	78,190
Financing activities:		
Issue of share capital, net	536,482	–
Issue of convertible promissory note to shareholder	500,000	–
Issue of demand promissory note to shareholder	500,000	–
Issue of convertible debentures	300,000	–
	1,836,482	–
Investing activities:		
Expenditures on petroleum and natural gas properties	(2,378,898)	(34,236)
Proceeds on disposal of petroleum and natural gas properties	257,818	–
Promissory notes receivable	(5,000)	–
	(2,126,080)	(34,236)
Increase in cash	43,641	43,954
Cash, beginning of year	97,647	53,693
Cash, end of year	$ 141,288	$ 97,647

1 Significant Accounting Policies

Basis of Presentation

The financial statements at December 31, 2000 and for the year then ended are presented on a consolidated basis and include the accounts of Flowing Energy Corporation (the "Corporation") and its wholly owned subsidiary, Flowing Energy Inc.

Certain of the prior year figures have been reclassified to conform to the current year's presentation.

The Corporation incorporated under the Business Corporations Act (Alberta) and is currently involved in the exploration, exploitation, development and production of petroleum and natural gas reserves in the Province of Alberta.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

Cash and cash equivalents

Cash and cash equivalents are those short-term money market instruments which, on acquisition, have an original term to maturity of three months or less.

Credit Risk Management

A substantial portion of the Corporation's accounts receivable is with customers in the oil and gas industry and is subject to normal industry credit risk.

Investments

Investments in shares of other companies are carried at cost or at cost less amounts written off to reflect an impairment in value that is other than a temporary decline.

Capital Assets

The Corporation is primarily engaged in the exploration, exploitation, development and production of petroleum and natural gas and follows the full-cost method of accounting whereby all costs related to the acquisition, exploration and development of petroleum and natural gas properties are capitalized. Capitalized costs are limited by a "ceiling value", being the estimated future net revenues, after tax, from production of proven reserves, at prices and costs in effect at year-end plus the lower of cost and estimated value of undeveloped properties.

Gains or losses are not recognized upon the disposition of properties unless a significant change in the depletion rate would result.

The costs of petroleum and natural gas properties are depleted using the unit-of-production method where the ratio of current year production to proven reserves, before royalties, determines the proportion of depletable costs to be expensed. Gas reserves and production are converted to barrels of crude oil on a heat equivalent basis. The cost of unproved acreage is excluded from the depletion calculation.

Joint Venture Operations

Where the Corporation's exploration and production activities are conducted jointly with others, the accounts reflect only the Corporation's proportionate interest in such joint activities.

Provision for Future Site Restoration

Estimated future site restoration and abandonment costs are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated each period by management based on current regulations, costs, technology and industry standards. The annual charge is included in the provision for depletion and depreciation and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

Flow Through Shares

Resource expenditure deductions funded by flow through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are renounced.

Income Taxes

Income taxes are accounted for by the liability method of income tax allocation. The Corporation changed its accounting policy from using the deferral method to the liability method, due to changes in generally accepted accounting principles. There was no material difference in the liability calculated using the new method.

2 Cash and Cash Equivalents

Cash and cash equivalents are comprised of a bank overdraft of $102,612 (1999 - cash of $97,647) and term deposits of $243,900 (1999 - nil).

3 Promissory Notes Receivable

The promissory notes receivable were issued on the issue of share capital. The notes have no fixed terms of repayment, bear interest at 4%, mature on June 30, 2001 and are secured by shares of the Corporation.

4 Investment in Sarnia Minerals Limited

The Corporation owns approximately 20% of the outstanding shares of Sarnia Minerals Limited, a company in the mineral exploration industry in the Republic of Georgia. In 1999, the investment was written down by $222,978 to a value of $10,000.

5 Petroleum and Natural Gas Properties

No overhead charges have been capitalized to Petroleum and Natural Gas Properties. The cost of undeveloped property excluded from the depletion base as at December 31, 2000 was $680,765 (1999 - $15,000)

For the year ended December 31, 2000, the Corporation incurred a ceiling test write-down of $102,000.

6 Demand Promissory Note Due to Shareholder

In exchange for a demand promissory note, in 2000 the Corporation borrowed $500,000 from a corporation that is a shareholder and has an officer and directors that are also an officer and directors of the Corporation. The note is payable on demand and in lieu of interest, the Corporation has granted the shareholder or the shareholder's nominee a two year option, from August 23, 2000, to purchase $500,000 of proven producing reserves of the Corporation in accordance with the rules of the Canadian Venture Exchange (CDNX) and satisfactory to the CDNX.

7 Convertible Promissory Note Due to Shareholder

During the year, the Corporation issued a $500,000, 8% Subordinated Convertible Promissory Note to a shareholder for cash. The shareholder has an officer and directors that are also an officer and directors of the Corporation. The note is due September 30, 2005 but may be repaid at any time, bears interest at 8% per annum and is fully subordinated to all senior debt. The holder of the note may convert the principal of the note into common equity of the Corporation at a 10% discount to market, in accordance with applicable securities regulations. Additionally, the shareholder or its nominee holds a two year option from August 23, 2000 to participate, prior to spud date, for a maximum of $1.67 million, in the farm-in of oil and gas plays of the Corporation's in the Province of Alberta on a 100 for 50 basis using standard CAPL terms.

8 Convertible Debentures

During the year, the Corporation issued $300,000 convertible debentures bearing 5% interest payable annually and due on February 1, 2003. The convertible debentures are convertible into 1,200,000 common shares at $0.25 per share on or before January 31, 2002 or 1,000,000 common shares at $0.30 per share between February 1, 2002 and February 2, 2003. Of these convertible debentures, $280,000 were issued to directors, officers or consultants of the Corporation.

9 Commitment

Letter of Credit

On behalf of the Corporation, a shareholder has provided a letter of credit (the "Letter of Credit") in the amount of $100,000 to the Alberta Court to cover potential legal costs in a lawsuit explained in Note 15. In the event the Letter of Credit is required to be honoured, the Corporation will be required to pay on demand to the shareholder, the value of the Letter of Credit. Subsequent to the year end, the Letter of Credit was discharged in full by the Alberta Court in accordance with the settlement of the lawsuit as discussed in Note 15.

10 Share Capital

Authorized –

Unlimited number of common voting shares.

Unlimited number of preferred shares issuable in one or more series.

Issued	2000		1999	
	Number of Common Shares	Amount	Number of Common Shares	Amount
Balance, beginning of year	5,800,000	$ 680,000	5,800,000	$ 680,000
Issued to officer and director under employment agreement	600,000	102,000	–	–
Issued on exercise of options	243,750	48,750	–	–
Issued pursuant to private placement	113,636	50,000	–	–
Issued pursuant to private placement of flow through shares	1,600,000	800,000	–	–
Tax effect of flow through shares	–	(356,960)	–	–
Issue costs	–	(107,307)	–	–
Balance, end of year	8,357,386	$ 1,216,483	5,800,000	$ 680,000

Common Shares Reserved for Issuance

The Corporation has a stock option plan for its directors, officers and consultants which provides options to purchase Common Shares at various prices. Under the current plan, the maximum term of options is five years. Options vest and are exercisable on a cumulative basis as to one third on each of the first, second and third anniversary of the grant date. The Corporation does not record any amounts to compensation expense related to the granting or exercise of options. The amount received by the Corporation for the Common shares issue is credited to Share Capital when exercised.

The Corporation has reserved 835,000 Common Shares for issuance of stock options. At December 31, 2000, the Corporation has the following options outstanding.

Issued to directors and officers (1999 - 243,750 at an option price of $0.20. Such options were exercised in the 2000 year.):

Shares		*Price*	*Expiry Date*
300,000	$	0.25	February 1, 2005
50,000	$	0.40	May 22, 2005
360,000	$	0.52	August 31, 2005
710,000			

In addition, the Corporation issued the following options to the agents of its 2000 flow-through common share private placement:

Shares		*Price*	*Expiry Date*
114,000	$	0.50	August 11, 2000
46,000	$	0.50	September 1, 2002
160,000			

11 Net Loss Per Share

Net loss per share has been calculated using the weighted average number of shares outstanding during the year of 7,052,922. The net loss per share is $0.018 (1999 - $0.052).

12 Income Taxes

Income tax expense differs from what would be expected from applying the effective income tax rate of 44.62% to income before income taxes. The difference results from the following:

		2000		1999
Expected income tax provision	$	(57,214)	$	(133,309)
Increase (decrease) income tax provision:				
Non deductible crown royalties, net of Alberta Royalty Tax Credit		48,534		2,391
Non deductible portion of depletion		43,375		6,099
Resource allowance		(29,122)		(3,613)
Unrecognized benefit of future income tax assets		–		104,334
Unrecognized benefit of losses		–		25,759
Other		(5,573)		(1,661)
	$	–	$	–

The Corporation has non-capital losses of $50,114 which may be utilized to reduce taxable income in future years. These losses expire as follows:

2005	$	16,891
2006		33,223
	$	50,114

In addition, the Corporation has capital assets which have a tax cost in excess of their accounting value of $108,838 and the Corporation's investment in Sarnia Minerals Limited has a tax cost in excess of its accounting value of $222,978.

The potential income tax benefits of these items have not been recognized in these financial statements.

13 Related Party Transactions

During 2000 the Corporation had the following related party transactions:

The subsidiary of the Corporation purchased from a corporation controlled by a director and officer, petroleum and natural gas properties valued at $95,000 in exchange for a non-interest bearing promissory note. The transaction was measured at the exchange amount. As at December 31, 2000, the balance owing on the promissory note of $86,800 is included in accounts payable an accrued liabilities.

Under the terms of an administrative services contract (the Administrative Services Contract) dated October 1, 2000, between the Corporation and a corporation controlled by certain directors and officers of the Corporation, the Corporation incurred management fees of $49,755 (1999 - Nil) for the provision of offices, office equipment, corporate officers, management and support personnel. The term of the Administration Services Contract is for one year and is renewable for additional one year terms at the option of the Corporation. The transactions were measured at the exchange amount and were in the normal course of operations. As at December 31, 2000, the amount owed under the Administrative Services Contract and included in accounts payable and accrued liabilities is $49,755.

Prior to the execution of the Administrative Services Contract, the Corporation had no employees and utilized certain personnel of a shareholder to manage and operate the Corporation. The shareholder has an officer and certain directors that are an officer and directors of the Corporation. As at December 31, 2000

general and administration expenses and accounts payable and accrued liabilities include a charge for $98,000 to reimburse the shareholder for general and administrative expenses incurred to operate the Corporation. The transactions were measured at the exchange amount and were in the normal course of operations.

14 Fair Value Disclosure

The fair value of all the Corporation's financial assets and liabilities approximates their carrying value.

15 Subsequent Events

On February 14, 2001, the Corporation settled a statement of claim it filed against the vendor, the operator and the independent engineers of the Corporation's subsidiary's Sousa-Fire acquisition. Under the terms of the settlement agreement effective December 1, 2000 the Corporation parted with its interest in the Sousa-Fire oil and gas properties and received a cash settlement of $225,000 and additional interests in the Snowfall properties. This portion of the settlement has been recorded in the financial statements as at December 31, 2000.

Also, as part of the settlement, effective February 14, 2001, certain shareholders returned 877,700 common shares to the Corporation for cancellation. The share cancellation has been accounted for in the first quarter 2001 financial statements of the Corporation. The shares were originally recorded at an aggregate value of $1.

CORPORATE INFORMATION

Directors

Michael R. Binnion
President and Chief
Executive Officer

David G. Mallory
Chief Financial Officer

Peder N. Paus

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Royal Bank of Canada
339 Eighth Avenue SW
Calgary, Alberta T2P 1C4

Transfer Agent

Computershare Trust
Company of Canada
600, 539 Eighth Avenue SW
Calgary, Alberta T2P 3S8

Stock Exchange Listing

Canadian Venture Exchange
Symbol : FLO

Flowing ENERGY

Flowing Energy Corporation

1580, 727 7th Avenue SW

Calgary, Alberta T2P 0Z5

Tel: (403) 777-1185

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